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CONTENTS

President: Mr. Alfonso PATIÑO (Colombia).

Present:

Representatives of the following States: Argentina, Australia, Austria, Colombia, Czechoslovakia, El Salvador, Ethiopia, France, India, Italy, Japan, Jordan, Senegal, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay, Yugoslavia.

Observers for the following Member States: Albania, Brazil, Bulgaria, Canada, Ceylon, Chile, China, Dominican Republic, Federation of Malaya, Ghana, Hungary, Ireland, Israel, Nepal, Netherlands, Pakistan, Peru, Romania, Sweden, Thailand, Turkey, Ukrainian Soviet Socialist Republic.

Representatives of the following specialized agencies: International Labour Organisation; United Nations Educational, Scientific and Cultural Organization; World Health Organization; International Monetary Fund.

The representative of the International Atomic Energy Agency.

AGENDA ITEM 4

Report of the International Monetary Fund (E/3696 and Add.1)

1. Mr. JACOBSSON (Managing Director of the International Monetary Fund), introducing the report of the International Monetary Fund, recalled that when he had taken office in April 1957, just after the Suez crisis, the world had been experiencing a period of great difficulties. However, efforts to combat those difficulties had already been under way and much progress had been made since then. The year 1962 had also been one of considerable economic and financial as well as political difficulties. The decline on the stock exchanges on both sides of the Atlantic in the spring of 1962 and the massive outflow of funds from Canada in June, with the consequent speculation regarding the value of the Canadian dollar, had been followed by the Cuban crisis and the Chinese attack on India. Then had come the failure of the negotiations for the United Kingdom's entry to the European Economic Community, the consequences of which it was as yet too early to evaluate. However, as regards the position of sterling, the United Kingdom had a stand-by arrangement of $1,000 million with the Fund.

2. The decline on the stock exchanges had been sharper on the continent of Europe than in New York and London. But the decline had not ushered in a recession or a depression, as had sometimes been the case in the past; business had continued to improve both in the United States and in Europe, even after the decline. The reason why that decline had not been the forerunner of a recession was that it had been regarded not as a reflection of worsening business but as a technical adjustment, brought on by the realization that the post-war inflationary rise in prices had come to an end. The level of wholesale prices in the United States had remained practically stationary for five years, and in other countries the rise had been less marked than in earlier years and there had been no signs of the resumption of persistent inflation. However, the quotations of many securities, which had been bought merely as a speculation or as a safeguard against inflation, had risen to fancy prices. Once the adjustment had been made, the position of those securities had become much sounder. Business in the United States had been at first somewhat hesitant, but as demand had been kept up, production had also been maintained and, in some cases, even increased. The increases had occurred in the area of "final purchases"—goods purchased for consumption, investment and export, excluding inventory changes—which explained the good tenor of business during the second half of 1962 and the beginning of 1963. In the United States, as well as in most other countries, home demand for consumer goods had been sustained, investment had not generally declined, and exports had usually risen. In 1962, world trade had increased by 5 or 6 per cent, which showed not only the resilience of business but also that the measures to free world trade and ensure prompt payments had had a good effect.

3. In June 1962, the Canadian Government had adopted a number of domestic measures to alleviate the strain on the balance of payments and had asked the Fund and institutions in the United States and the United Kingdom for assistance. It had obtained a drawing equivalent to $300 million from the Fund and of $750 million from other sources. That combination of measures had stemmed the capital outflow and relieved the pressure on the foreign exchange market. Canada had now been able to increase its foreign exchange reserves to more than the pre-crisis level. In addition, Canada had recently announced the removal of all the import surcharges which had been imposed as a temporary measure at the time of the crisis.

4. The restoration of the Canadian exchange position had been a remarkable demonstration of the effectiveness of international monetary co-operation and of the speed with which assistance could be mobilized. International monetary co-operation had also played a significant role at the time of the Cuban and the Chinese-Indian disturbances. There had been a strong private demand for gold, but that had been met without difficulty from current supplies and the London gold pool, and the foreign exchange markets had been only slightly affected. On those occasions, there had never been any doubt about the determination of both the national and the international monetary authori-

ties to intervene energetically if the need arose. On the markets also there had been an awareness that if they wished to intervene effectively, the monetary authorities had the means to do so: the reciprocal central bank credits that had been and were still being negotiated, the London gold pool, and the resources of the Fund.

5. The technical arrangements were valuable, but the discussions which had led to them were equally so, and they would be continued to ensure exchange of information and more effective co-operation between the central banks.

6. The Fund had been greatly strengthened over the past two years. After extensive discussions in the Fund and the Board of Governors, the basic provisions of general borrowing arrangements which would make additional supplies of foreign currency available to the Fund had been incorporated in a decision adopted by the Fund in January 1962, under which the ten main industrial countries concerned indicated their willingness to lend the Fund up to $6,000 million.1/ That decision had come into effect on 24 October 1962, when the eighth country, the United States, formally adhered to it; the total commitments of the seven other countries had amounted to the equivalent of $5,650 million at the time of the United States adherence. Of the two remaining countries, Belgium had since adhered to the decision, but Canada had not yet done so, although he understood that a bill for that purpose was now ready for submission to the Canadian Parliament. In the cases where Parliamentary approval had been required, it had been obtained virtually without opposition. Switzerland, which was not a member of the Fund, had been invited to associate itself with those arrangements and a bill had been submitted to the Swiss Federal Parliament within the last month providing for Swiss association with the currency support operations of the Fund up to an amount equivalent to a maximum of $200 million.

7. Supplementary resources made available to a member of the Fund under the new arrangements would be repayable when the member's particular problem was solved and in any event within not more than three to five years. That was in harmony with the principles and practices already developed by the Fund. What was new was the commitment of the participating members to lend to the fund in order to enable it to forestall or remedy any impairment of the international monetary system.

8. That framework had been further strengthened in other ways. In July 1961, the Executive Directors had clarified the use to be made of the Fund's resources in dealing with deficits attributable to capital transfers, and in July 1962, they had adopted a decision setting out the principles which should govern the choice of currencies in drawings and repurchases. It would be recalled that in 1959, members' quotas had been increased by 50 per cent and sometimes substantially more, thus raising their total from $9,000 million in 1958 to $15,000 million at the end of 1961, excluding the $6,000 million available under the general borrowing arrangements. With those resources at its disposal, the Fund would be able to play a decisive role in rendering assistance to member countries in their efforts to pursue policies compatible with the Fund's principles and practices. In addition, the Fund's capacity to give massive support had had a decisive influence in checking the speculative movement of funds and maintaining calm on the foreign exchange markets.

9. However, stability was not the only problem; to meet the needs of rapidly growing production and economic activity generally, an expansion in liquidity was needed. The inflationary period which had followed the Second World War had ended, and conditions on the world markets had radically changed by 1960.

10. A new situation had emerged, characterized by increasingly fierce competition, and new policies and practices were needed to meet it. First, when it had become impossible to raise prices any further, it had been necessary to pay greater attention to costs. It had not been easy to convince the public or even the business world that the situation had really changed, particularly where the problem of wages was involved. The Council of Economic Advisers to the President of the United States had therefore rendered a valuable service in laying down guidelines, in their report to the President early in 1962, for permissible wage increases, i.e., increases within the margin of rises in productivity. Similar guidelines had been indicated in other countries over the past year and the whole matter had been discussed in terms of the beginning of an "incomes policy". Such a policy need not run counter to the requirements of a market economy system; on the contrary, in present-day economies, which were often dominated by large organizations and groupings of industry and labour, some guidance might be very necessary for the proper working of the system.

11. Secondly, it could no longer be taken for granted that an adequate increase in liquidity would occur without special action. Business might use its own liquid resources more freely and request increased credits from the banking system, but such development had at least to be underpinned by official policies. The expansionary public financing policies pursued by the United States in recent years had involved a certain risk, but it had been necessary to take it, for a non-expansionary policy in the United States would have had serious repercussions on economic activity in the world as a whole. It was clear from the budget just announced by the United Kingdom that it, too, was pursuing a policy of expansion.

12. There was an increasing awareness of the need to co-ordinate economic policies, particularly those of the main industrial countries. Such co-ordination was in the interest of both the developed countries and the countries producing raw materials. Expansion in the industrialized countries led to heavier purchases of raw materials from the primary producing countries and to a general expansion of world trade, which provided an outlet for the exports of the primary producers' developing industries. As the Council was aware from past debates, the economic policies of the developed countries were of the highest importance to the under-developed countries also.

13. Although the Fund had carried through some very large transactions with highly industrialized countries, those with less developed countries had been far more numerous. There had been transactions between the Fund and all but one of the Latin American republics and, over the past year, all but one of the drawings and all but one of the stand-by

1/ See E/3696, appendix XI, sect. D.

arrangements had been with developing countries. The Fund had thus acquired an intimate knowledge of the countries' problems and had been impressed by the efforts made to establish and maintain orderly monetary conditions in many of them.

14. One of the major difficulties encountered by the countries producing raw materials was the fluctuations in the prices of primary commodities, which created instability in their export earnings. The amount of assistance the Fund had provided to meet short-term balance-of-payments fluctuations in developing countries had greatly expanded in recent years; there had also been an increase in the proportion of cases where difficulties had arisen in part from declining or stagnant export proceeds. As the countries exporting primary commodities had few reserves, the fluctuations often prevented them from sustaining the imports of the capital goods they needed for steady development.

15. The Fund had considered the matter carefully and in February 1963, it had adopted certain decisions regarding the assistance it could render in such cases. Those decisions were to be found in a report on compensatory financing of export fluctuations which the Fund had prepared for submission to the Commission on International Commodity Trade.2/ The Fund had decided in particular to create a new compensatory financing facility which would broaden its balance of support to member countries, particularly the primary producers. The new facility, which would normally amount to 25 per cent of the members' quota, would enable the Fund to grant assistance more readily in cases of payments difficulties resulting from export shortfalls. First, the Fund would have to be satisfied that the shortfall was of a short-term character and also that it was due to circumstances beyond the member's control. Secondly, the member country would need to show willingness to co-operate with the Fund in finding solutions for its balance-of-payments difficulties. The new facility would not reduce the amount of assistance available under the Fund's ordinary drawing policy because it was prepared to grant a waiver and permit outstanding drawings to exceed an amount equal to 125 per cent of a country's quota, where necessary. The general intent of the new facility was to give all member countries desirous of solving their balance-of-payments problems the assurance of ready support from the Fund in meeting difficulties arising out of genuine short-term export shortfalls. The application of the new policy still remained to be worked out in the light of experience, but he was convinced that it would provide a basis for genuine assistance to and co-operation with the developing countries.

16. The Fund had also decided to examine the possibility of raising the quotas of certain primary producing countries in order to make more adequate provision for covering the fluctuations in their export proceeds. The Fund would be making a closer study of the subject in the coming months. The report already mentioned clearly stated that compensatory financing was only one of the means of improving the condition of less developed countries; other action, in many different fields, was required from the developing countries themselves, and from the developed countries and international institutions.

17. In dealing with that problem, there must be a division of responsibilities, as well as a common determination to work hard in order to ensure sustained development. Industrial countries must both permit and encourage, to the greatest possible extent, ready access to their markets for the products of the developing countries, including any products of new industries which they could export on a competitive basis. The whole subject of general trade policies was being widely discussed, particularly by the Contracting Parties to GATT and in the Preparatory Committee of the United Nations Conference on Trade and Development. The second responsibility of the industrial countries was to provide sustained technical and financial assistance to the less developed countries. While there was a growing understanding in the more advanced countries of the appropriateness of financial assistance, there was also a feeling that it should be used more effectively, and he believed that a certain review would not lessen the amount of aid, but would ensure its continuation. Thirdly, the adoption by the leading industrial countries of general expansionist policies was of great importance, leading to a strengthening of the demand for the products of the less developed countries.

18. The latter countries had the responsibility, as sovereign States, to conduct their own affairs, to maintain law and order, to educate and care for their people, and to administer their finances and their economies. In so doing, they must frame their policies in a manner which would best contribute to their own growth and development, and while there were differences in their resources and in other respects, some general observations could be made. Industrial development and the establishment of new businesses required, first, men possessing a spirit of enterprise and the technical knowledge needed to initiate new projects or develop existing plant, and, secondly, free resources, i.e., savings, to finance genuine and lasting development. Those fundamental principles of economics must be respected, whether a country had a State-controlled economy, a market economy or a mixed system. Foreign aid would be forthcoming, but it could play only a limited role in relation to total needs. Outside expertise could often be useful in the formulation of taxation and expenditure policies, and the Fund was substantially expanding its technical assistance services with respect to fiscal, credit and monetary matters.

19. Countries with limited real resources were often tempted to rely too much on the banking system to finance expenditures by creating money—in other words, by inflation. It was now generally appreciated that the burden of inflation fell mostly on the poor, whom developing policies were designed primarily to benefit. Moreover, inflation gave rise to windfall profits and a flight of capital which could not be halted by any system of controls and which meant that the country affected could not retain for its own use all the savings of its people, much less provide any inducement to investment or assistance from abroad. In many cases, inflation also led to an overvalued currency, with all the consequent harm and distortions to the economy. Many of the Governors of the Fund had agreed, at the annual meeting in September 1962, that inflation was most harmful to the economies and growth of their countries, and the Fund had found in its contacts with members that such sentiments were decisively gaining ground among persons who had hitherto resisted them. More

2/ See Compensatory Financing of Export Fluctuations, a report by the International Monetary Fund (Washington, D.C., February 1963).

and more countries were taking measures to stabilize the economy, in the full realization that a period of readjustment might be necessary before sustained growth could be resumed; experience had shown, however, that that period need not be very harsh or very long, especially with support from international institutions and friendly Governments.

20. Despite the understandable disappointment of many countries with a desperately low per caput income, there was no easy method, such as deficit financing, for accelerating the rate of growth in any type of economy. The difficult problems of growth required detailed and hard work, under stable monetary conditions, and the technical expertise necessary to assist national authorities to develop to the full the resources at their disposal was fortunately available from many international agencies, including the International Bank for Reconstruction and Development—and its affiliates—the Special Fund and the Expanded Programme of Technical Assistance. In addition, when the proper basis had been laid, the richer countries must be ready to give appropriate aid in the form of financial and technical assistance, by opening their markets to the products of the developing countries and by pursuing suitable expansionist economic policies in their own countries.

21. Mr. MATSUI (Japan) noted with satisfaction that, despite pressure on the Canadian dollar early in the year and a temporary rise in the price of gold at the time of the Cuban crisis, the international monetary situation in 1962 had been satisfactory on the whole and the two key currencies for international exchange transactions had remained stable, owing largely to the restoration of equilibrium in the trade balance among western countries and the great improvement in their international liquidity position. However, international co-operation in the field of monetary policy on the part of industrial countries, as in the 1961 gold pool agreement and the "swap" agreements since March 1962 between the United States and western European countries, had also contributed to stability. A further measure had been taken in January 1962, when the Fund had entered into a stand-by borrowing arrangement for the equivalent of $6,000 million with ten industrialized countries, including Japan, to enable them to deal with balance-of-payments difficulties that might arise from current exchange transactions as well as from short-term capital movements. The agreement, which had come into force in October 1962, would play an invaluable role in preventing any disturbances in international exchange transactions as a result of speculative short-term capital movements.

22. The record figures for the Fund's activities during the year covered by the report were eloquent testimony of its important role in the promotion of a stable international economy. At the same time as the currencies of western European countries had again become convertible, the percentage represented by purchases of United States dollars in all drawings from the Fund had diminished considerably. Japanese currency had been used for the first time in the Fund's exchange transactions in 1961-1962, and Japan in turn had entered into a stand-by agreement in January 1962 for $305 million, constituting a valuable second-line credit in support of the stabilization of Japan's economy, although it had not been necessary to invoke the agreement.

23. In contrast to the generally favourable situation of the industrial countries, only a few of the primary-producing countries had been able to increase their foreign exchange reserves, and it was encouraging to note that the Fund had assisted those countries to a greater extent than in any previous year. His delegation was glad to learn that the Fund had made a careful study of ways of dealing with the balance-of-payments difficulties of the primary-producing countries arising from fluctuations in commodity prices and had produced a report on compensatory financing proposing higher quotas for the developing countries and the application of a more flexible policy to drawings by the developing countries in order to offset the decline in their export earnings—the most practical and desirable measure for compensatory financing to cope with that decline.

24. Japan's economy had enjoyed a sustained high rate of growth since 1959, but excessive investment in the private sector and a rapid increase in domestic demand had led to a deterioration in the balance of payments. His Government had applied appropriate monetary, fiscal and other measures to curb excessive investment activities and to restore the balance of payments, including the stand-by agreement with the Fund and sizable borrowings from the United States in the form of bank loans and acceptance credits. Those measures had led to a considerable improvement in the situation, and the authorities had been gradually relaxing their stringent monetary policy since the autumn of 1962.

25. The problems hindering a sound and steady development of Japan's economy included the inefficiency of such sectors as agriculture, small-scale industry and some heavy industry, discrimination against Japanese exports, and a chronic deficit in invisible trade. Nevertheless, since September 1959, the Government had been implementing a programme designed to accelerate the liberalization of foreign exchange and trade, with a view to co-operating with other member countries of the Fund in order to promote the expansion of the world economy through free and multilateral trade. Eighty-eight per cent of Japan's total imports, calculated on the basis of 1959, had been freed from trade restrictions as from 1 October 1962, and it had been announced in February 1963 that Japan would cease to invoke article 12 of GATT and that the remaining restrictions would be maintained in accordance with the relevant procedures of GATT. The Government also intended to accelerate the elimination of the remaining restrictions on payments for invisible current transactions and to accept, as soon as possible, the obligations under article VIII of the Articles of Agreement of the Fund.

26. Japan depended largely on international trade for its economic growth, and the key to the improvement of its balance-of-payments position lay in the promotion of exports; consequently, it was hoped that the countries still maintaining discriminatory trade restrictions against Japan would appreciate its Government's efforts to liberalize trade and would co-operate by abolishing such restrictions.

27. Mr. DUPRAZ (France) said that he would limit his remarks to three subjects covered in the report before the Council: the general state of the French economy, with particular reference to foreign trade and payments; the international monetary system;

and the possibility of action by the Fund with regard to the compensatory financing of export fluctuations.

28. The Fund's report indicated that in 1961 France had become the world's leading creditor country and it was a fact that the continuing balance-of-payments surplus and the accompanying increase in foreign reserves were clear indications of France's economic recovery and the restored firmness of the franc. A balanced appraisal of the economic situation of France was possible, however, only if a number of facts apparent after four years of very rapid expansion, and the factors which were at present engaging the attention of the French Government, were taken into account.

29. The over-all picture was indeed satisfactory; expansion had continued at a rate sufficient to maintain full employment and to raise the general level of living year by year. The gross national product had increased by 6.3 per cent in 1962, household consumption by 6.7 per cent in volume, and the effective work-week exceeded forty-six hours. Production had increased considerably in all sectors, despite some unsteadiness in investments and some reduction in the self-financing capacity of enterprises. Agricultural output had been 9.5 per cent higher than in 1961, owing not only to a bumper grain harvest in the preceding year but also to a notable improvement in productivity. More than one quarter of the active population was still engaged in agriculture, and that was felt to be a source of imbalance; but humanitarian, social and political considerations could not be ignored, and the annual rate of change-over was unlikely to be more than 1.5 per cent, so that the problem of foreign markets was of vital importance.

30. A lesser known aspect of the growth of the French economy had been the unprecedented population expansion of 1,100,000, or 2.4 per cent, within a year, resulting from natural growth, the traditional influx of foreign labour and the repatriation of French citizens from North Africa. As a result, the demand for consumer goods had risen by 6.7 per cent, as against an expected rise of 5.5 per cent, and that was one of the main causes of the increase in imports of 13.3 per cent by volume, instead of 8 per cent as anticipated. The movements of population had also been largely responsible for the recent uneasiness in the French money market, which had necessitated the imposition in February 1963 of mildly restrictive measures, including the placing of a ceiling on bank credits for the next twelve months, a slight increase in bank reserves, and a change in the interest rate of treasury bonds.

31. The upsurge in private consumption was also evidenced by the recent trend of wages and prices, which was a matter of concern to the Government. Hourly wages had risen in 1962 by an average of 9 per cent and retail prices by 4.6 per cent, while wholesale prices had been held down by more intense international competition and had increased by only 2.1 per cent. The inevitable consequences of such a trend were sufficient grounds for the French authorities to take a firm stand against any undue rise in wages and prices. The situation had had repercussions on the volume of foreign trade, and a surplus of 480 million francs in the first half of 1962 had been followed by a deficit of 250 million francs in the second half of the year. It should be remembered, in that connexion, that France had relaxed its import policies in recent years through the almost total abolition of quantitative restrictions on manufactured goods and through sizable tariff reductions, in respect not only of other member countries of the European Economic Community, but also of third countries.

32. The French Government was well aware of the obligations imposed upon it by its surplus holdings of foreign funds. In 1962, only one half of the surplus of a little more than $1,000 million had gone to swell the currency reserves; the rest had been used to make advance repayments of the country's external public debt, mainly to the United States. The present reserves of almost $4,000 million were, in the view of his Government, no cause for either alarm or censure; they represented only six months' imports, or even less if the needs of the whole franc area were considered. Certainly, the reserves appeared modest, in view of the proportion of gold and convertible currencies respectively which they comprised, and in view also of the corresponding figures for other European countries. The Fund's report gave some indication of France's intention to play its part in international monetary co-operation, since the amount in francs normally available for withdrawal, together with France's participation in the ten-country arrangement and in the "swap" agreement with the Federal Reserve Bank of New York, made a sum equivalent to more than $1,000 million immediately available.

33. There were a number of prerequisites for the maintenance of stability in international payments. First, creditor countries must do all they could to assist, and France believed it was fulfilling that duty; secondly, countries suffering from a deficit in their foreign payments must adjust their economic and financial policies accordingly, as was apparently being done, at least by the largest of those countries; lastly, resources must be available—as in fact they were—from international institutions. As regards radical reform in the international monetary system, his Government had found nothing that was new or positive or not open to serious objection in the various plans that had been advanced.

34. The problem of compensatory financing of primary commodity price fluctuations was not new to the Council, and it was largely the untiring work of the French delegation in recent years which had led the United Nations to give the highest priority to the matter of stabilizing commodity prices. The problem would undoubtedly be one of the main subjects which would be dealt with by the United Nations Conference on Trade and Development. He was glad to note the efforts made by the Fund to assist in seeking a comprehensive solution, since it was logical for the Fund to concern itself with the strictly financial problems that might arise in that connexion. It was equally important for the United Nations to tackle the question of the long-term stabilization of prices, as the only means of finding a permanent solution for the difficulties which jeopardized the development of primary producing countries. France had always pursued a policy of supporting prices and regulating markets in its dealings with those African producing countries with which it had traditional links. The agreements signed by the European Economic Community with a number of African States provided for the gradual adaptation of the conditions in which certain tropical items were produced to the conditions of sale and consumption in world markets. As his

delegation had repeatedly stated, France favoured the rational organization of commodity markets, as soon as possible, wherever it was possible. In the meantime, he hoped that the Fund would apply the new arrangements liberally in order to deal with situations which threatened, not only the balance of payments, but also the economic development of the primary producing countries.

35. It had always seemed unlikely that the world monetary situation could be improved by ensuring the stability of the leading currencies unless, at the same time, the developing countries were able to achieve balanced growth. The problem of the developing countries was the great problem of the day, from both the political and the technical point of view, and it concerned both the industrial countries and the under-developed countries themselves. As the Presidents of Mexico and France had stated following their recent talks, the highly industrialized nations had a duty to co-operate with others with a view to raising their level of living, while strictly respecting the juridical equality and independence of all peoples.

36. Mr. PAVICEVIC (Yugoslavia) observed that during 1962 the Fund had achieved an outstanding tempo of activity and had successfully contributed to the solution of monetary problems in many countries. Its well-prepared report emphasized the central problem of the world economy, namely, the acceleration of the rate of development of the developing countries. He hoped that in its everyday activities the Fund would concern itself increasingly with that problem.

37. The need for a new approach to the problems of the developing countries had become even more apparent now that the whole United Nations family was making a critical appraisal of its economic and social activities and was beginning to implement such widely conceived plans as the United Nations Development Decade and the United Nations Conference on Trade and Development. It had left behind an important phase of its development during which it had clearly identified the problems of the world economy and had reached the conclusion that resolute action was required to solve them. The moment for such action had arrived.

38. While its intervention had often been timely and successful, the Fund had sometimes granted credits on condition that the recipient country carried out severe deflationary measures and adopted a more liberal foreign trade policy. As a result, in certain cases, investment activity in the recipient country had been limited and its rate of economic development retarded.

39. Although the Fund had done much to finance short-term deficits in the balance of payments of the developing countries, the problem of financing their current deficits had become more urgent during the last few years. As a result of fluctuating commodity prices and deteriorating terms of trade, their monetary reserves had fallen sharply. The Fund must adjust itself to the new situation and relate its credit terms to their needs and potentialities. The Fund should not only act as the guardian of monetary discipline throughout the world, but should also actively encourage the accelerated growth of the developing countries.

40. The terms under which credits were granted should be further adapted to the changed structure of member countries and should take into account their specific balance-of-payments problems. His delegation hoped that, in addition to its normal activity of financing deficits in the balance of payments of member countries, the Fund would contribute to international programmes for the stabilization of primary commodity markets and participate in the various schemes of compensatory financing.

41. Mr. UNWIN (United Kingdom) said that in the last eighteen months the Fund had developed even more successfully than in other recent years. That was indeed cause for satisfaction. Membership of the Fund should soon reach one hundred and the new members were almost all developing countries.

42. The most important part of the Fund's activities had continued to be the provision of monetary assistance, mainly for the purpose of overcoming short-term balance-of-payments difficulties and supporting the stabilization programmes of the developing countries. A new and important feature had been the much greater variety of currencies in which both drawings and repurchases were made. The Fund had become a truly multilateral credit agency, a welcome development.

43. The Fund had also again provided assistance for some of the industrialized countries, notably the United Kingdom. The sum of $1,500 million drawn by the United Kingdom in August 1961 had been fully repaid within one year by repurchases of sterling from the Fund and by drawings of sterling of other members. When the additional stand-by credit of $500 million had expired in August 1962, a new stand-by for up to $1,000 million had been arranged for a further year.

44. The new borrowing scheme was a major contribution to international stability. It would permit the Fund to operate more effectively in the new conditions of convertibility. The Fund should be commended for the role it had played by its consultations under article XIV of the Fund Agreement with members who maintained exchange restrictions; by its provision of technical advice and assistance; by the help given to some countries in the preparatory work leading to membership of the Fund; and by its contributions to the technical training programmes of other international organizations. The United Kingdom welcomed the practice whereby member countries which had accepted the obligations of article VIII regarding convertibility had nevertheless voluntarily continued periodic consultations. Also gratifying was the decision which the Fund had taken in the matter of compensatory financing.

45. All the above developments provided concrete evidence that the Fund was not only a living, growing organization, but that its ability to meet the needs of a wide and increasing range of members was growing too. He was confident that that process would continue, that the number of members would increase, that the possibilities offered by the Fund would become more widely available, and that the contribution which the Fund had already made and was continuing to make in greater measure to stability in international payments and to the expansion in international liquidity, and consequently to the development of international trade, would be more widely recognized as a major contribution to economic development generally and to the United Nations Development Decade.

46. In his statement, the Managing Director of the Fund had referred to the policy of financial expansion being followed by the United Kingdom. Statements made in London showed that the United Kingdom recognized the value of the Fund's contribution to stability and development and was basing its own policy upon it.

47. Mr. WALKER (Australia) pointed out that the last six years had been eventful ones in the world of finance. The Fund had shown great capacity in dealing with critical situations. Equally impressive was its record of adaptation to changing conditions and its success in organizing the co-operation of the leading financial countries to promote the stability of those currencies that were most widely used in world trade. The countries whose currencies would have been shaken by political events, such as those mentioned by the Managing Director of the Fund, were not the only ones to be grateful for the remedial action taken. Other countries, largely dependent for their development upon the orderly expansion of world trade, would have faced new difficulties if the world's major currencies had fallen into unpredictable fluctuations.

48. The process of growth in both developing and highly developed countries was in continuous danger of being interrupted or at least slowed down by the emergence of balance-of-payments difficulties. Those difficulties could be avoided to some extent if all countries were expanding at much the same rate. The attempts that were being made to promote mutually consistent rates of growth in different countries were helpful, but they could not be expected to eliminate balance-of-payments difficulties altogether. The existence of the Fund and the knowledge that it was able and willing to provide temporary finance to tide countries over balance-of-payments difficulties encountered in the course of economic growth made it possible for developed and under-developed countries alike to pursue their development policies with greater confidence and success.

49. When even wealthy countries had difficulty in maintaining equilibrium in their balance of payments, the prospects of their providing the sums needed for development aid were almost inevitably affected. The fear that contributions to foreign aid programmes would add to a country's balance-of-payments problems was often exaggerated. It was unusual for the whole of a country's foreign aid programme to be spent abroad. In so far as a foreign aid contribution led to expenditure within the contributing country, for example, for the purchase of capital goods manufactured in that country, no direct demand for foreign currency was involved and there was no immediate impact upon the balance of payments. Furthermore, when many countries were contributing to foreign aid programmes, the part of their contributions that was spent abroad and added to their negative balance was also added to the positive balance or subtracted from the negative balance of other countries that were supplying goods or services to the developing countries. Provided all countries contributed, any danger to the individual balances of payments of each was accordingly reduced. Moreover, it there was in fact a net negative balance, in the sense that a contributing country was transferring funds to the under-developed countries over and above what was actually spent out of aid funds in that country, that tended to bring about changes in relative incomes and prices in directions that should gradually produce the necessary adjustments in the balances of trade, so that the foreign aid contributions would not complicate the balance-of-payments problem. However, partly because the mechanism worked but imperfectly and sometimes slowly, and partly because the whole process was not sufficiently understood, preoccupation with the balance of payments continued to add to the other obstacles in the way of increased foreign-aid programmes. The fact that the Fund could assure contributing countries that they would receive assistance to overcome balance-of-payments difficulties might help to create a more favourable climate for development aid programmes.

50. The Australian Government welcomed the Fund's recent decision to create a new compensatory financing facility. The problem was a vast one which could not be completely solved either by the Fund's new arrangement or by other forms of compensatory financing. The Commission on International Commodity Trade would take up the matter at its next session in April 1963. The Australian Government had always considered that compensatory financing could at best only alleviate the short-term problems and could not be a substitute for positive action to improve the longer-term trend in the terms of trade of primary producing countries. The unsatisfactory level of export receipts was the crux of the trade problem of primary producing countries. It could only be remedied by fundamental action in relation to such matters as world market prices, access to the markets of industrialized countries and production policies in those countries. International trade schemes on a commodity-by-commodity basis were needed to tackle those long-term problems. Such schemes would go a long way towards moderating the short-term fluctuations, the effects of which compensatory financing sought to mitigate. There were, however, some commodities for which stabilization schemes might not be appropriate and some causes of fluctuations in export receipts with which such schemes could not easily cope (crop failure, for example). With those views in mind, the Australian Government welcomed the positive contribution made by the Fund towards solving the problem of short-term fluctuation in export receipts.

51. It also deeply appreciated the general observations made by the Managing Director of the Fund on the responsibilities of the industrial countries and the developing countries. He was sure that the Managing Director's advice would be taken to heart by the Council and hoped it would be widely disseminated throughout the United Nations.

The meeting rose at 1.5 p.m.